Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

COMMENTS OF AMERITECH ON THE SECOND RECOMMENDED DECISION OF THE FEDERAL-STATE JOINT BOARD

Ameritech submits these comments on the Second Recommended Decision of the Federal-State Joint Board on the universal service.[1] The Commission should be reluctant to embrace the Board's recommendations that would radically modify the high cost support proposal for non-rural carriers introduced by the Commission in its Universal Service Order.[2] Regardless of the jurisdictional infirmities of the Board's new proposal, its recommendation for a federal fund supporting both interstate and intrastate costs threatens to greatly increase the size of the fund and would, of necessity, require the Commission to delve into the adequacy of state efforts to address universal service issues in their jurisdictions.

In addition, in order for the program to be competitively neutral, each carrier must have the ability to recover the costs of its universal service contributions via surcharges or other rate increases against those services whose revenues determine the carrier's contribution amounts.

[1] *In the Matter of Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Second Recommended Decision, FCC 98J-7 (released November 25, 1998) ("Second Recommended Decision").

[2] *In the Matter of Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Report and Order, FCC 97-157 (released May 8, 1997) ("Universal Service Order").

I. INTRODUCTION.

As the Board notes, the Commission in its Referral Order[3] asked the Board for its recommendations on the following issues:

(1) An appropriate methodology for determining support amounts, including a method for distributing support among the states and, if applicable, the share of total support to be provided by federal mechanisms. If the Commission were to maintain the current 25/75 division as a baseline, the Commission also requests the Joint Board's recommendation on the circumstances under which a state or carrier would qualify to receive more than 25 percent from federal support mechanisms.

(2) The extent to which federal universal service support should be applied to the intrastate jurisdiction. In its recommendation on this issue, the Commission requests the Joint Board's recommendation on the following topics:

(a) To the extent that federal universal service reform removes support that [is] currently implicit in interstate access charges, whether interstate access charges should be reduced concomitantly to reflect this transition from implicit to explicit support, and whether other approaches would be consistent with the statutory goal of making federal universal service support explicit. The Commission also requests a recommendation on how it can avoid "windfalls" to carriers if federal funds are applied to the intrastate jurisdiction before states reform intrastate rate structures and support mechanisms.

(b) Whether and to what extent federal universal service policy should support state efforts to make intrastate support mechanisms explicit. The Commission recognizes that section 254(k) envisions separate state and federal measures related to the recovery of joint and common costs, but nevertheless welcomes the Joint Board's input on how section 254(k) may relate to the Commission's role in making intrastate support systems explicit.

(c) The relationship between the jurisdiction to which the funds are applied and the appropriate revenue base upon which the Commission should assess and recover providers' universal service contributions and, if support for federal mechanisms continues to be collected solely in the interstate jurisdiction, whether the application of federal support to costs

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[3] *In the Matter of Federal-State Joint Board on Universal Service,* Order and Order on Reconsideration, CC Docket No. 96-45, FCC 98-160, 13 FCC Rcd. 13749 (released July 17, 1998) ("Referral Order").

incurred in the intrastate jurisdiction would create or further implicit subsidies, barriers to entry, a lack of competitive neutrality, or other undesirable economic consequences.

(3) To what extent, and in what manner, is it reasonable for providers to recover universal service contributions through rates, surcharges, or other means.[4]

Basing its response on principles articulated in §254(b) of the Act concerning the affordability of service and also reasonably comparable rates in high cost areas, the Board recommends that the Commission abandon its proposal to fund 25% (roughly the interstate portion) of high cost universal service support. The Board recommends that federal support be available to non-rural carriers serving areas with costs significantly above the national average and that the support should be available for the totality of the high cost support necessary in those cases in which a state would find it difficult to achieve "reasonably comparable rates" absent such federal support.[5]

The Board makes no recommendation regarding whether the Commission should eliminate implicit support from interstate access rates but does recommend that, to the extent implicit support is removed from interstate access rates and replaced with explicit universal service support then access rate elements should be reduced dollar for dollar to reflect that fact.[6]

Although the Board recognizes a joint federal/state responsibility for universal service, it notes that the issues of whether intrastate support mechanisms should be explicit (intrastate rate

[4] Second Recommended Decision at ¶11.

[5] *Id.* at ¶19.

[6] *Id.* at ¶23. The Board also recommends that the Commission seek to ensure that any reduction in interstate access rates inure to the benefits of consumers.

design) and the nature (and even the existence) of any intrastate universal service fund should be left to the states.[7] In that regard, the Board specifically states that:

> Federal support may not be made contingent upon any actions taken, or not taken by the states.[8]

Nonetheless, the Board maintains that:

> Federal support should only be used to supplement a state's ability to address its own universal needs. In order to accomplish this second step, it will be necessary to calculate a level of support that could equitably and reasonably be assumed to be provided by implicit or explicit state support.[9]

II. THE BOARD'S PROPOSAL WILL RESULT IN A SUBSTANTIAL AND AS YET UNJUSTIFIED INCREASE IN THE SIZE OF THE FEDERAL HIGH COST FUND.

A. The Joint Board Proposal Calls for a Dramatic Increase in the Amount of Federal High Cost Support for Non-Rural Carriers.

Undoubtedly anticipating certain criticism for proposing a mechanism that substantially increases the size of the federal high cost fund, the Board maintains:

> We do not believe, however, that current circumstances warrant a high cost support mechanism that results in a significantly larger federal support amount than exists today.[10]

Nonetheless, by its very nature, the Board's proposal would necessarily involve a substantial increase in the total size of the federal high cost support fund -- either compared to the current fund or compared to that proposed by the Commission in the Universal Service Order.

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[7] *Id.* at ¶24.

[8] *Id.* at ¶36.

[9] *Id.* at ¶44.

[10] *Id.* at ¶49.

First of all, the Board's proposal involves a "hold harmless" provision.[11] That, of course, guarantees that the fund will be larger than it is today.[12] Second, despite jurisdictional questions, the Board's proposal would fund 100% of high cost, not the 25% involved in the mechanism proposed in the Universal Service Order -- *i.e.*, the proposal involves direct support for high intrastate costs.[13]

On the other hand, the proposal appropriately calls for supportable costs to be determined on a study-area level instead of the wire center basis involved with the Universal Service Order proposal.[14] This would tend to lower the amount of support needed compared to a wire center approach and recognizes certain limitations on federal responsibility to support high cost -- *i.e.*, it presumably recognizes state responsibility to manage intra-study area cost disparities.

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[11] *Id.* at ¶53.

[12] There is no provision in the Board's recommendation that would remove or phase down such a hold harmless provision in the future for those states whose costs are below the benchmark level and would not qualify for the same amount of support in the future as they receive presently. At a minimum, Amertiech suggests that there be a schedule to phase down the excess funds for those states who received more high cost support under the hold harmless provision than they would otherwise be entitled to under the new formula. Providing for a reasonable time period for affected companies to make any adjustments that might be necessitated by a reduction in federal high cost fund support would eliminate "rate shock" concerns. Such a phase down would also be consistent with the Board's recommendations that there be a "gradual phase-in of any increase in federal universal service high cost support for non-rural carriers." To allow the hold harmless provision to continue indefinitely would needlessly perpetuate a larger federal high cost fund than is necessary, would result in high cost support being directed to areas other than those having the greatest need, and would discourage states who qualify under the hold harmless provision from addressing their own universal service needs.

[13] *Id.* at ¶4. The Universal Service Order's 25% is based on the historical interstate portion of the cost of "providing the supported network facilities that have historically been recovered by local telephone companies from their charges from interstate services." (*In the Matter of Federal-State Joint Board on Universal Service,* CC Docket No. 96-45, Report to Congress, FCC 98-67, 13 FCC Rcd. 11501 (released April 10, 1998) ("Report to Congress") at ¶221.) That proposal was clearly consistent with the statute's vision of separate "Federal and State mechanisms" for universal service. (Section 254(b)(5) of the Act; see also, section 254(f).) The Board attempts to address the statute's reference to separate funds by acknowledging states' responsibility to address universal service issues. Nonetheless, it is clear that the Board's proposal would, in certain circumstances, result in support of intrastate costs without regard to what states are actually doing in that regard -- i.e., the federal fund could well be the sole support for both the interstate and intrastate costs of universal service.

[14] Second Recommended Decision at ¶¶32-35.

Nonetheless, this by itself, is insufficient to overcome the other aspects of the Board's proposal that would greatly inflate the size of the fund.

Of particular note in this regard is the proposal to fund 100% of the cost over a benchmark set at a level between 115% and 150% of the national weighted average cost per line.[15] This involves a substantial increase over current support mechanisms.[16] As shown on Attachment A, the current mechanism funds only a fraction of a carrier's cost above the 115% benchmark. For non-rural carriers whose study areas have more than 200,000 loops, the current mechanism funds only 10% of the cost between 115% and 160% of the national average and only 30% of the cost between 160% and 200% of the national average. As Table 2 of Attachment A shows, assuming a non-rural carrier with a study area of more than 200,000 loops and an average loop cost of 200% of the national average, the current mechanism provides support of 8.25% of the carriers total loop cost. The Board's proposal, assuming a 115% threshold, would fund a full 42.5% of the carrier's total loop costs. There is just no avoiding the fact that the Board's proposal would involve a dramatic increase in the size of the federal high cost fund.[17]

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[15] *Id.* at ¶43.

[16] Although this benchmark would be based on forward-looking costs, and although forward-looking costs would be expected to be lower than embedded costs, the amount by which individual carriers' forward-looking costs would exceed a national average forward-looking costs might be expected to be similar to the amount by which those carriers' embedded costs exceed a national embedded cost figure. Embedded cost data is used in calculating current support amounts.

[17] Because of this, even if the Commission is inclined to accept the Board's recommendations in principle, it should make modifications to the plan to preclude dramatic and unwarranted increases in the size of the fund. In this regard, the Commission should consider limiting support to something less than 100% of the costs above the benchmark (e.g., 25%; see Attachment A, pp 7-8) or establishing the benchmark at a figure above 150% of the national average cost.

B. There Has Been No Showing That Such a Dramatic Increase in the Amount of Federal High Cost Support Is Necessary.

The Board admits that rates are currently affordable.[18] Rather, the motivation behind the Board's proposed revisions to the federal universal service mechanism is to fulfill what it sees as a legislative mandate for "reasonably comparable" rates.[19] Despite this, however, the Board does not offer any evidence that rates in high cost areas are incomparably higher than they are in other urban areas.[20] For example, the Commission's own data shows numerous examples of lower rates in cities in high cost states than rates in cities in low cost states. For example, the monthly service rate is $19.26 in high cost Butte, Montana, compared to $22.98 in low cost Terre Haute, Indiana, and $15.97 in high cost Seattle, Washington, compared to $24.98 in low cost Baltimore, Maryland.[21] Certainly, there has been no showing that, even if there are some differences in

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[18] Second Recommended Decision at ¶3. It is puzzling and contradictory that the Commission should recommend such drastic changes while at the same time saying that, because rates are affordable, there is limited need for additional federal involvement. (*Id.* at ¶39.)

[19] *Id.* Section 254(b)(3) states:

> Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services. . . that are reasonably comparable to those services provided in urban areas and that are available at rates that reasonably comparable to rates charged for similar services in urban areas.

Obviously, the language of the statue itself creates a question as to its applicability in this case. In this docket, we are dealing with support mechanisms for "non-rural carriers," whose rates for these purposes would appear to be "urban". This docket deals with the support of universal service and the elements of universal service peculiar to local exchange service. The above provision speaks in broader terms, including interexchange services and information services. To say that that provision has direct applicability to the support of universal service of a local exchange nature is a misreading of the provision. Rather, it speaks in aspirational terms to the creation of a regulatory environment that fosters competition on economic terms for those services to ensure that such services are available on "reasonably comparable" terms. Moreover, applying that provision to a federal universal service fund, as the Board proposes, necessarily implicates the Commission in ensuring the nationwide averaging of local exchange rates. That interpretation seems unnecessarily broad. A more reasonable reading of the provision would simply view it as an encouragement to the states to deal with the issue of any dissimilarity of rates between urban and non-urban areas.

[20] "Comparable" cannot mean "equal" since the term is qualified by the word "reasonably."

[21] "Reference Book of Rates, Price Indices and Expenditures for Telephone Service," FCC Industry Analysis Division, July 1998, Table 1.3

certain cases, the differences are so widespread and so great that a massive increase in federal support is necessary. That reason alone should give the Commission pause before accepting the Board's proposal. In other words, there has been no showing that, for non-rural carriers, there is any serious "comparability problem" that cannot be addressed by the current mechanism and by reasonable efforts on the states' part.

III. THE BOARD'S COMBINED FUND PROPOSAL WOULD NECESSITATE COMMISSION INTRUSION INTO STATE MATTERS.

The Commission specifically asked the Board to address potential "windfall" issues involved with federal universal support applied to an intrastate jurisdiction in the case of those carriers who have not undertaken efforts to address universal service matters.[22] In response, the Joint Board recommends that federal support be available only where a state is not reasonably able to support its own universal service needs.[23] However, the Board maintains that the Commission has no authority over state universal service support efforts or state rate structures (*i.e.*, whether any intrastate support is explicit or implicit) and that, therefore, the Commission cannot condition federal support on any state action.[24] Rather, the Board would have the Commission determine whether a state is capable of addressing its own universal service needs in the abstract, on some sort of hypothetical basis. The Board has suggested a couple of possible surrogates in this regard. First, the Board suggests that the Commission might consider utilizing the ratio of high cost to low cost lines to determine a state's ability to support its own universal

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[22] Second Recommended Decision at ¶11.

[23] *Id.* at ¶5.

[24] *Id.* at ¶¶24, 38-39.

service needs.[25] Second, the Board offers developing a limit of state responsibility based on a percentage of intrastate revenues.[26] However, neither of these proposals is necessarily reflective of the actual ability of any particular state to address its universal service needs. The fact of the matter is that, unless the Commission looks at what an individual state has actually done or is planning to do in support of its own universal service needs, both unjustified windfalls and unjustified penalties would undoubtedly occur. The use of a surrogate would likely result in penalizing some states that have already "bitten the bullet" and addressed certain urban to rural implicit subsidy issues though efforts such as rate "rebalancing," while rewarding others who have no plans of ever addressing universal service issues.

Therefore, if a combined fund is to be done right, the disbursement of funds must necessarily involve an examination of the efforts actually undertaken by states to deal with universal service issues, and, in those cases where efforts are inadequate, whether the states can reasonably be expected to do more.[27] While there may be jurisdictional problems with the Board's proposal to support intrastate costs from a federal fund in the first instance, there would not appear to be a legitimate jurisdictional objection to conditioning a federal payment on a state's undertaking actions that are within its jurisdictional authority. That being said, however, the Commission should be reluctant to adopt a model for a federal fund that would logically require it to become so involved in an analysis of state universal service efforts. The wiser course would instead be to maintain the statutory paradigm of jurisdictionally separate funds.

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[25] *Id.* at ¶44.

[26] *Id.* at ¶45.

[27] An examination of state efforts in this regard would be fairly complicated. It probably would not be appropriate for the Commission to require that states actually establish separate intrastate universal service funds especially

IV. CARRIERS SHOULD HAVE THE ABILITY TO RECOVER THE COST OF CONTRIBUTIONS AGAINST SERVICES WHOSE REVENUES ARE ASSESSED FOR THE CONTRIBUTIONS IN THE FIRST INSTANCE.

The Board makes no specific recommendation as to whether only a carrier's interstate revenues or its combined inter-and intrastate revenues should be assessed for contributions to the high cost fund. The Board notes that an aspect of this issue is pending before the Fifth Circuit in its review of the Universal Service Order.[28] The Board, however, appropriately notes that:

> If the Commission determines that it may assess universal service contributions based on all revenues, the Commission should find that states may do the same for their state universal mechanisms.[29]

If state revenues are assessed for contributions to the federal fund, it would violate the principle of competitive neutrality to fail to assess all revenues for state support as well. Otherwise, intrastate revenues will be assessed for a greater portion of total universal support. Alternatively, the Commission could continue the current plan of assessing only interstate revenues for contribution to the interstate fund and permit any states that wish to establish intrastate funds to assess intrastate revenues for that purpose.

In addition, the Board correctly concludes that carriers should have the flexibility to determine how to recover the costs of their universal service contribution.[30] It is important for competitive neutrality purposes that every carrier contributing to the fund have the flexibility of recovering the costs of those contributions back against the services whose revenues cause the contribution assessment in the first place. Otherwise, the support becomes implicit and

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when substantial efforts in "rebalancing" of intrastate rates may be more effective in eliminating implicit subsidies.

[28] *Id.* at ¶63.

[29] *Id.*

competitive inequities and economic distortions will occur.[31] In fact, in order to assure uniformity in that regard, the Commission should seriously consider requiring that the cost of universal support be recouped by carriers only via specific surcharges on their bills to end users.

V. CONCLUSION.

The Commission should be reluctant to adopt the Board's recommendations to modify the universal service high cost universal service proposal to involve the support of intrastate costs in a way that would significantly increase the size of the fund.

Respectfully submitted,

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Dated: December 23, 1998
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[30] *Id.* at ¶¶64, 69.

[31] See Ameritech's original comments on the Joint Board's First Recommended Decision in this docket filed December 19, 1996, at 30.

Attachment A

Analysis of Joint Board Recommendation

In its Second Recommended Decision[1], the Joint Board recommended that the FCC replace the 25/75 jurisdictional division of responsibility for high cost universal service support, adopted in the *Universal Service Order*, with a 2-step methodology for non-rural carriers.[2] First, the FCC would determine the difference between the forward-looking costs of a non-rural carrier's study area and the national average forward-looking cost.[3] The forward-looking cost would be determined using a single, nationwide cost proxy model, currently being developed by the FCC.[4] Support would be provided to those study areas whose costs "significantly" exceeded the national average, somewhere between 115%-150% of the national average. 100% of the cost which exceeded the benchmark would be supported.[5]

Secondly, support would be provided to those study areas whose forward-looking cost exceeded the benchmark, only if they were in a state that was unable to reasonably support its universal service needs. Federal support would be provided only for costs that exceed both thresholds.[6] However, notwithstanding the 2-step process outlined above, no non-rural study area would receive less in federal high cost support than they currently receive under the existing mechanisms.[7] All non-rural study areas would be "held harmless."

Under the current Federal High Cost support program, explicit federal support is provided in 3 forms: the Universal Service Fund which provides support for high cost loops (loops whose cost is greater than 115% of the national average), support for switching costs in the form of DEM weighting, and long-term support (LTS). Generally, non-rural carriers receive only support from the Universal Service Fund. There are some non-rural carriers that receive DEM weighting support, but inasmuch as this support is only available to study areas with 50,000 access lines or less, the amount of DEM weighting provided to non-rural carriers is minimal. The only non-rural carrier that receives LTS is Puerto Rico, who receives approximately $86 million annually.

Since the vast majority of current federal high cost support for non-rural carriers is provided via the Universal Service Fund, it is appropriate then to compare the support provided from that fund, with the proposed mechanism outlined in the Joint Board recommendation. The following table lays out the current support for high cost loops in study areas with 200,000 or more loops:

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[1] *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket 96-45, Second Recommended Decisioni, FCC 98J-7 (released November 25, 1998) ("Second Recommended Decision")
[2] *Id.* at ¶4.
[3] *Id at* ¶ 42.
[4] *Id* at ¶ 27-31.
[5] The proposal outlined in the Second Recommended Decision would apply only to non-rural carriers. Rural carriers would continue to receive high cost funding as they do today until at least January 1, 2001.
[6] Second Recommended Decision at ¶ 42-44.
[7] *Id* at ¶ 51-53.

Table 1
Current High Cost Formula
Study Areas with Over 200,000 Loops

% Loop Cost of National Average	% Expense Adjustment Within Range
0% - 115%	0%
115% - 160%	10%
160% - 200%	30%
200% - 250%	60%
250% and above	75%

Table 1 indicates that carriers whose study areas have more than 200,000 loops receive support for costs above 115% of the national average. The support is provided in a graduated way with more support being provided for the portion of the costs that exceed various thresholds. For example, 10% of the costs between 115% and 160% of the national average are supported, 30% of the costs between 160% and 200% are supported, etc. Both the study area and national average costs are calculated based on embedded costs.

In contrast, the Joint Board recommendation would provide support for 100% of the costs that exceed the cost benchmark (somewhere between 115% and 150% of the national average). As shown in Table 2, this level of support is potentially far greater than the current level even though the costs under the Joint Board proposal are forward-looking rather than embedded. Table 2 shows, for various costs as a percentage of the national average, what portion of total loop costs are supported by the federal high cost support mechanism. For example, a carrier whose loop costs are 165% of the national average currently has 3.64% of total loop costs supported by the federal program. Under the Joint Board proposal, with a benchmark of 115% or 150%, the proposed support would amount to 30.3% and 9.09%, respectively.

The comparison is not perfect since, under the current program, the costs being supported are embedded costs rather than forward-looking costs as the Joint Board recommends. However, the table does show, that for high cost areas, the potential support may be much greater under the Joint Board recommendation. This is inconsistent with the Joint Board's observation that current rates are affordable and that, therefore, a large increase in high cost support for non-rural carriers is not necessary.[8]

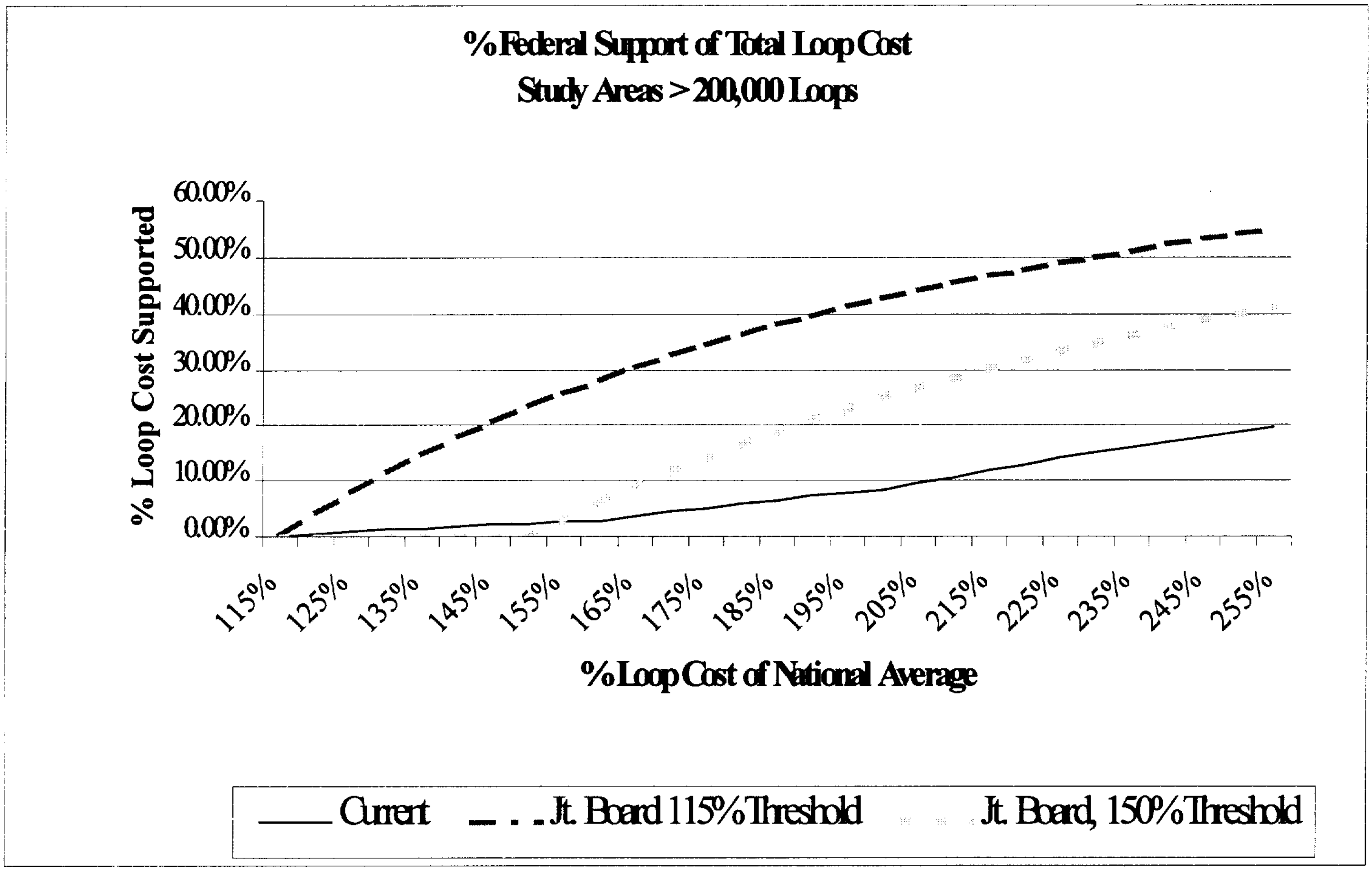
[8] *Id* at ¶3 and ¶49.

Table 2
% Federal Support of Total Loop Cost
Study Areas > 200,000 Loops

% of Total Loop Costs Provided by Federal Support

% Loop Cost of Nat. Avg.	Current	Joint Board 115% Threshold	Joint Board 150% Threshold
115%	0.00%	0.00%	0.00%
120%	0.42%	4.17%	0.00%
125%	0.80%	8.00%	0.00%
130%	1.15%	11.54%	0.00%
135%	1.48%	14.81%	0.00%
140%	1.79%	17.86%	0.00%
145%	2.07%	20.69%	0.00%
150%	2.33%	23.33%	0.00%
155%	2.58%	25.81%	3.23%
160%	2.81%	28.13%	6.25%
165%	3.64%	30.30%	9.09%
170%	4.41%	32.35%	11.76%
175%	5.14%	34.29%	14.29%
180%	5.83%	36.11%	16.67%
185%	6.49%	37.84%	18.92%
190%	7.11%	39.47%	21.05%
195%	7.69%	41.03%	23.08%
200%	8.25%	42.50%	25.00%
205%	9.51%	43.90%	26.83%
210%	10.71%	45.24%	28.57%
215%	11.86%	46.51%	30.23%
220%	12.95%	47.73%	31.82%
225%	14.00%	48.89%	33.33%
230%	15.00%	50.00%	34.78%
235%	15.96%	51.06%	36.17%
240%	16.88%	52.08%	37.50%
245%	17.76%	53.06%	38.78%
250%	18.60%	54.00%	40.00%
255%	19.71%	54.90%	41.18%

The following chart is simply a graphical representation of Table 2.



A similar pattern holds for those study areas with less than 200,000 loops, particularly at the 115% benchmark. Current support for study areas with fewer than 200,000 loops is given by the following table:

Table 3
Current High Cost Formula
Study Areas with Less Than 200,000 Loops

% Loop Cost of National Average	% Expense Adjustment Within Range
0% - 115%	0%
115% - 150%	65%
150% and above	75%

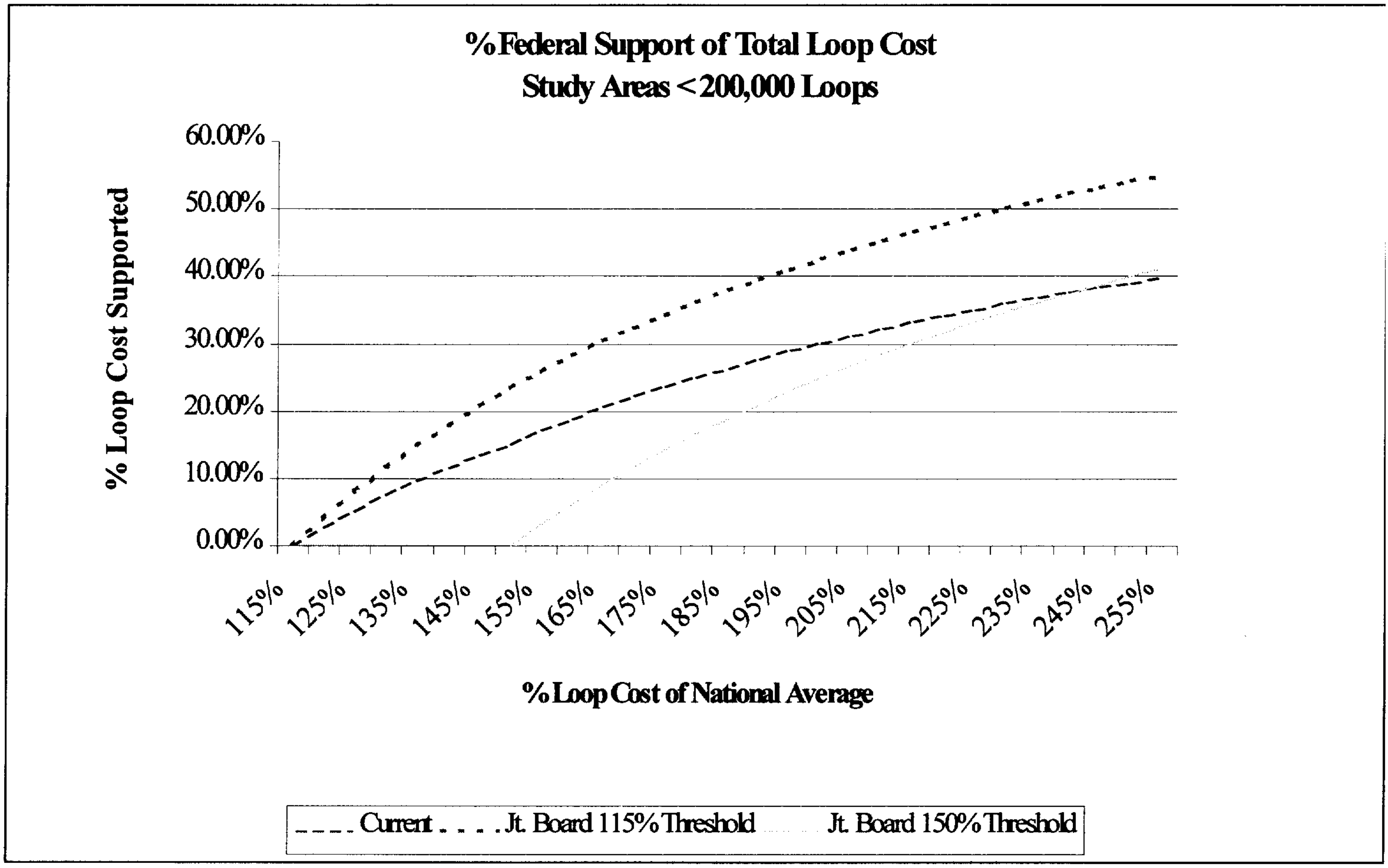
The conversion of these support amounts into a percentage of total loop costs is given in Table 4:

Table 4
% Federal Support of Total Loop Cost
Study Areas < 200,000 Loops

% of Total Loop Costs Provided by Federal Support

% Loop Cost of Nat. Avg.	Current	Joint Board 115% Threshold	Joint Board 150% Threshold
115%	0.00%	0.00%	0.00%
120%	2.71%	4.17%	0.00%
125%	5.20%	8.00%	0.00%
130%	7.50%	11.54%	0.00%
135%	9.63%	14.81%	0.00%
140%	11.61%	17.86%	0.00%
145%	13.45%	20.69%	0.00%
150%	15.17%	23.33%	0.00%
155%	17.10%	25.81%	3.23%
160%	18.91%	28.13%	6.25%
165%	20.61%	30.30%	9.09%
170%	22.21%	32.35%	11.76%
175%	23.71%	34.29%	14.29%
180%	25.14%	36.11%	16.67%
185%	26.49%	37.84%	18.92%
190%	27.76%	39.47%	21.05%
195%	28.97%	41.03%	23.08%
200%	30.13%	42.50%	25.00%
205%	31.22%	43.90%	26.83%
210%	32.26%	45.24%	28.57%
215%	33.26%	46.51%	30.23%
220%	34.20%	47.73%	31.82%
225%	35.11%	48.89%	33.33%
230%	35.98%	50.00%	34.78%
235%	36.81%	51.06%	36.17%
240%	37.60%	52.08%	37.50%
245%	38.37%	53.06%	38.78%
250%	39.10%	54.00%	40.00%
255%	39.80%	54.90%	41.18%

Again, Table 4 is represented graphically as follows:



Once again, at the 115% Benchmark, the Joint Board proposal is more generous than the current system. At the 150% Benchmark, the Joint Board proposal is less generous for study areas with loop costs below 240% of the nationwide average. However, those study areas would be no worse off under the Joint Board proposal because of the "hold-harmless" provision.

Of course, without a finalized cost proxy model, a definitive benchmark, or a well defined method for determining which states are unable to provide for their own high cost needs, it is impossible to make exact determinations on the size of the non-rural high cost fund under the Joint Board recommendation. We do know that because of the "hold-harmless" provision, the fund size cannot be less than the current fund size. Without the above information, however, it is impossible to determine exactly how much higher it will be.

In light of the potential for large increases in the non-rural high cost fund, it is crucial that the FCC carefully consider all aspects of the Joint Board proposal to insure that the mechanism adopted does not result in large increases in federal support where it is not warranted. For example, the FCC might consider limiting support to something less than 100% of the costs above the benchmark.[9] The FCC might also consider raising the benchmark to something above 150% in order to prevent the fund from growing too much or too fast. While both of these proposals, on their own, would mean that some carriers would receive less support than under the current system, temporary application of a "hold-harmless" would ensure that no carrier would be harmed.

Provision of 25% of the cost above the benchmark would be one way that the FCC could limit the size of the fund. If, for example, the FCC were to adopt the Joint Board recommendation but fund 25% of the cost above this benchmark, then the following percentages of loop costs would be supported by the federal fund:

[9] Ameritech has consistently advocated that the federal support be no more than 25% as the FCC proposed in the *Universal Service Order*.

Table 5
% Federal Support of Total Loop Cost
Study Areas > 200,000 Loops

	% of Total Loop Costs Provided by Federal Support		
% Loop Cost of Nat. Avg.	Current	115% Benchmark 25% Fed. Support Above Benchmark	150% Benchmark 25% Fed. Support Above Benchmark
115%	0.00%	0.00%	0.00%
120%	0.42%	1.04%	0.00%
125%	0.80%	2.00%	0.00%
130%	1.15%	2.88%	0.00%
135%	1.48%	3.70%	0.00%
140%	1.79%	4.46%	0.00%
145%	2.07%	5.17%	0.00%
150%	2.33%	5.83%	0.00%
155%	2.58%	6.45%	0.81%
160%	2.81%	7.03%	1.56%
165%	3.64%	7.58%	2.27%
170%	4.41%	8.09%	2.94%
175%	5.14%	8.57%	3.57%
180%	5.83%	9.03%	4.17%
185%	6.49%	9.46%	4.73%
190%	7.11%	9.87%	5.26%
195%	7.69%	10.26%	5.77%
200%	8.25%	10.63%	6.25%
205%	9.51%	10.98%	6.71%
210%	10.71%	11.31%	7.14%
215%	11.86%	11.63%	7.56%
220%	12.95%	11.93%	7.95%
225%	14.00%	12.22%	8.33%
230%	15.00%	12.50%	8.70%
235%	15.96%	12.77%	9.04%
240%	16.88%	13.02%	9.37%
245%	17.76%	13.27%	9.69%
250%	18.60%	13.50%	10.00%
255%	19.71%	13.73%	10.29%

At the 115% benchmark, Table 5 shows more support under the Joint Board proposal funded at 25% of costs above the benchmark than support under the current system for study areas with loop costs below 215% of the national average.[10] Study areas with loop costs above 215% of the national average would fare better under the current system. Again, however, a temporary hold-harmless provision would mitigate the negative effects of the change.

At the 150% benchmark, federal support under the Joint Board proposal funded at 25% of costs above the benchmark is less generous than current support in all cases. Again, a phased-out hold-harmless provision would mitigate the effects of the change.

Conclusion

The FCC should be very careful about adopting the Joint Board proposal as it is currently written. The proposal has the potential for unwarranted large increases in federal high cost funding-a result the Joint Board itself admits would be undesirable. Much work needs to be done in terms of finalizing the proxy model, choosing a benchmark, deciding on an appropriate percentage of federal support above the benchmark, and on deciding which states that might otherwise qualify for federal support are able to take care of their own universal service needs through "reasonable effort." Only after these areas are adequately addressed can the Joint Board recommendation be fully evaluated.

[10] The most recent NECA USF data show that, for study areas with 200,000 or more loops, no study area has a loop cost greater than 171% of the national average.

CERTIFICATE OF SERVICE

I, Todd H. Bond, do hereby certify that a copy of the foregoing Comments of Ameritech on the Second Recommended Decision of the Federal-State Joint Board has been served on the parties listed on the attached service list, via first class mail, postage prepaid, on this 23rd day of December, 1998.

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